

NatWest

Northern Powerhouse PMI[®]



NatWest

New data shows the Northern
Powerhouse shining
brightly in 2019



May 2019



PMI[®]
By IHS Markit

Introduction

Northern Powerhouse cements its place as a key growth area for the UK economy



With our political processes in gridlock and our future relationship with key European trading partners shrouded in uncertainty, I had expected intuitively that the performance of the Northern Powerhouse economy would be showing negative trends with little to suggest improvement any time soon - so much for intuition!

For sure, automotive retail sales have slowed markedly, steel producers are facing a very tough market, some retailers are struggling as shoppers move online and tensions in global trade relations should not be overlooked, but the Northern Powerhouse economy has by many measures displayed a strong performance relative to other parts of the UK.

With business confidence strong, growth in the workforce, rising manufacturing output and improving order books, the creative talent, resourcefulness and determination of Northern Powerhouse businesses has defied gloomy predictions and turned in remarkable results so far in 2019.

The prevailing uncertainty both domestic and international shows few signs of clearing in the near future but we should take comfort from the resilience our economy continues to display.

Lastly, I would like to thank Richard Carter, Lord Jim O'Neill and Emma Degg, all of whom benefit from strong business connections in the Northern Powerhouse region, for their valuable insights and observations.

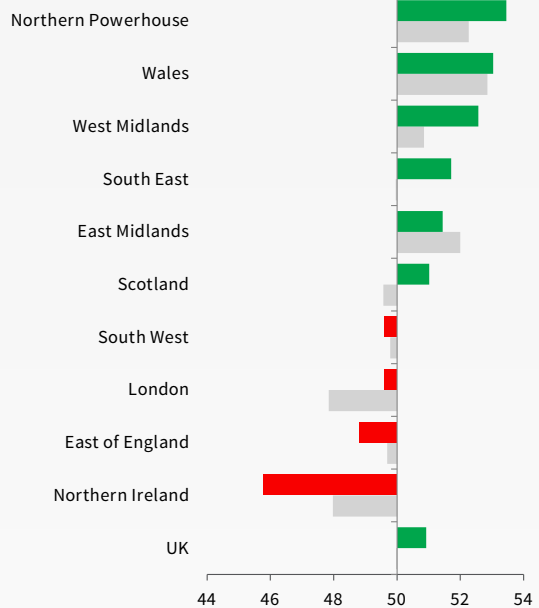
Richard Topliss
Chairman, NatWest North Board

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UK regional rankings

NatWest PMI® Business Activity Index
sa, >50 = growth since previous month, Apr-19 ■ (Mar-19 ■)





The NatWest Northern Powerhouse PMI® reveals that private sector companies across the region remained on a growth footing this spring, with a solid expansion of business activity and improved order books in April contrasting with subdued conditions elsewhere in the UK.

Northern Powerhouse private sector output growth hit a seven-month high in April and exceeded that seen across the rest of England, Scotland, Wales and Northern Ireland.

The headline Northern Powerhouse Business Activity Index – a seasonally adjusted index that measures the change in the combined output of the region’s manufacturing and service sectors – posted 53.5 in April, to remain above the crucial 50.0 no-change value and continuing a run of growth that stretches back to August 2016. The latest index was up from 52.3 in March and the highest since September 2018.

The region has exceeded the equivalent UK-wide figure in each of the past six months.

Robust manufacturing growth

A robust contribution from the manufacturing sector provided a key support to Northern

Powerhouse output in April. Manufacturing output expanded at one of the fastest rates seen since 2017, although some of the uplift reflected stockpiling efforts and a temporary boost to sales from Brexit contingency plans. In March, manufacturers had reported survey-record rises in both their stocks of purchases and post-production inventories amid efforts to avoid supply chain disruption.

The underlying picture for manufacturing sales picked up in April, helped by the strongest rise in new export orders since December 2018. In addition, optimism about production growth rebounded to a 13-month high, partly driven by hopes of more clarity regarding the path to Brexit.

New order growth was still subdued relative to warehouse inventories, meaning that the unwinding of Brexit stockpiling could act as a drag on growth in the second half of 2019. Goods producers also reported concerns about weaker global trade flows as ongoing US-China trade frictions continued to cast a shadow over international supply chains.

Rebound in order books

Turning to new orders across the Northern Powerhouse economy as a whole, latest data indicated a return to growth after the soft patch seen in March. The rebound contrasted with a sustained decline in new

business levels across the UK as a whole, which survey respondents linked to domestic political uncertainty and consequent delays with corporate decision-making.

Job creation softens

Job creation at Northern Powerhouse firms was only modest in April and eased slightly since the previous month. The region still outperformed the UK as a whole, with companies linking staff hiring to long-term expansion plans and new product launches.

Input cost inflation moderates

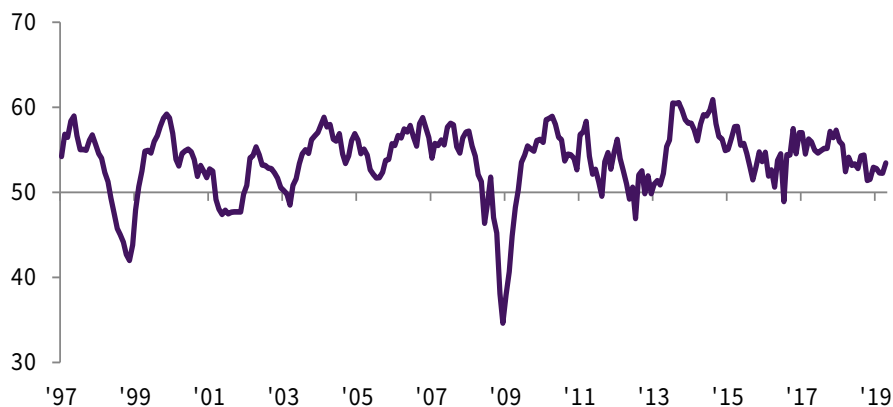
Operating expenses have increased sharply over the past two-and-a-half years amid rising imported raw material costs and stronger pay pressures. However, the rate of cost inflation softened in April and was far below the peak seen during 2017. Lower cost inflation and competitive pressures led to the slowest rise in prices charged by Northern Powerhouse businesses since July 2016.

Optimism recovers from March's low

Latest data signalled a rebound in business confidence after Brexit-related concerns took their toll on optimism in March, with confidence hitting its lowest point for over six years. Business expectations across the region hit a six-month high and moved back above the UK-wide benchmark during April.

NatWest Northern Powerhouse PMI® Business Activity Index

sa, >50 = growth since previous month



Economic overview

Northern Powerhouse tops the UK regional growth table

Sebastian Burnside



“ There are 42,000 more people in work today across the Northern Powerhouse than there were a year ago. ”

Key findings

Private sector output growth hits seven-month high

New orders rebound in April

Job creation outpaces the UK as a whole

The UK economy beat expectations in Q1 this year with GDP expanding by 0.5% in the quarter, meaning that output is now 1.8% higher than a year ago. But the Northern Powerhouse economy looks to be performing even more strongly judging by the reports from businesses in this research.

Such strength is being translated into greater opportunity. There are 42,000 more people in work today across the regions of the Northern Powerhouse than there were a year ago. Job creation on this scale has pushed unemployment down to 4.4%, lower than even the fastest growing periods of the 90's and 2000's. As competition for workers heats up, so has wage growth.

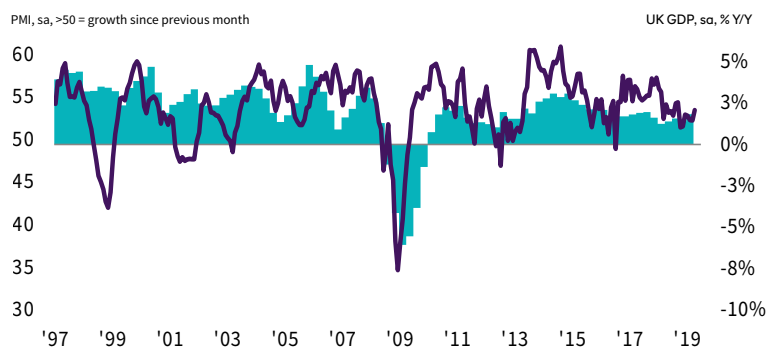
A further boost has come from subdued inflation, now down close to the Bank of England's target of 2%. All this adds up to a great start to the year for consumers and for the businesses who are giving them what they want.

It's likely to have been a good start to the year for new entrepreneurs in the region too. Business start up rates have been rising, led by the explosive growth of new firms being created in the North West, up almost 80% in 5 years.

We can't know what twists and turns politics and economics will take during the rest of 2019, but it is encouraging to see the strength and optimism in the Northern Powerhouse economy shining through.

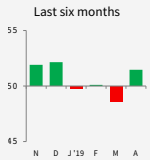
Sebastian Burnside,
Chief Economist
NatWest

Northern Powerhouse Business Activity Index / UK Gross Domestic Product

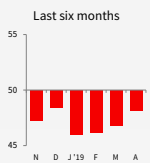


Sources: NatWest, IHS Markit, Office for National Statistics

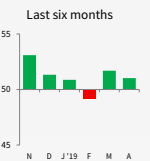
New Business Index



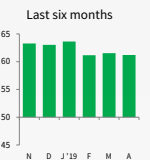
Outstanding Business Index



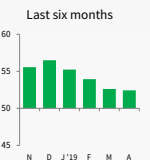
Employment Index



Input Prices Index



Prices Charged Index



Recovery in new order volumes

Businesses across the Northern Powerhouse private sector saw a slight uptick in demand for goods and services in April. This was highlighted by the seasonally adjusted New Business Index moving back above the 50.0 no-change threshold following its weakest quarterly performance since early-2009 in the three months to March.

Businesses make inroads into backlogs

April saw a further reduction in backlogs of work across the Northern Powerhouse private sector, marking the seventh time in as many months that a decrease has been recorded.

That said, the pace at which firms made inroads into their work-in-hand continued to ease from the strong rate recorded at the start of the year, when data had showed the steepest decline in backlogs since spring 2016.

Firms continue to show caution towards hiring

The seasonally adjusted Employment Index pointed to another modest increase in workforce numbers across the Northern Powerhouse in April, having previously signalled the first instance of overall job cuts for almost two-and-a-half years in February. The pace of job creation was subdued when compared to the strong rates seen during 2017 and 2018, highlighting that firms remained cautious in their approach to hiring.

Nevertheless, the rise in staffing levels maintained a run of outperformance in terms of recruitment compared to the wider UK economy, which saw flatlining employment in April.

Rising wages and oil prices push up costs

Latest data showed the continuation of strong cost pressures across the Northern Powerhouse private sector economy during April. Though below the highs in 2017 and 2018, input price inflation continued to run at a rate that was quicker than seen across the UK as a whole.

Companies reporting higher operating expenses frequently cited the influence of wage demands and rising oil prices.

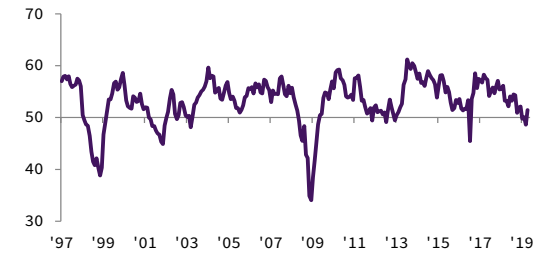
Competitive pressures weigh on pricing power

Firms across the Northern Powerhouse displayed greater caution in their price-setting behaviour in April. Amid reports of strong competition and associated efforts to boost demand, average prices charged for goods and services were raised at the slowest rate for over two-and-a-half years.

The recent slowdown has seen output price inflation across the Northern Powerhouse slip below the national rate.

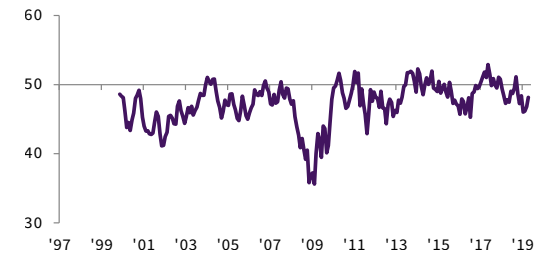
New Business Index

sa, >50 = growth since previous month



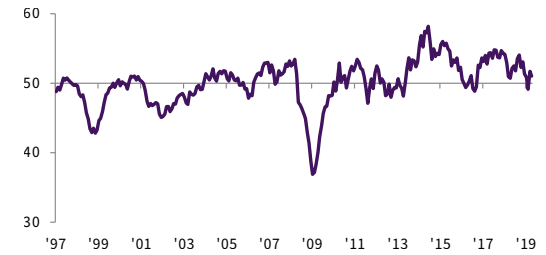
Outstanding Business Index

sa, >50 = growth since previous month



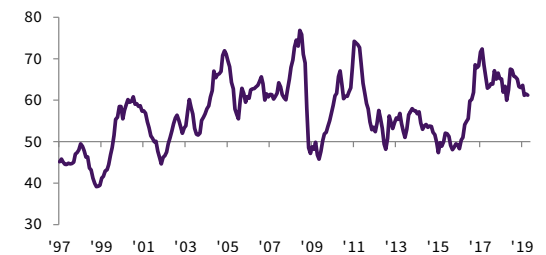
Employment Index

sa, >50 = growth since previous month



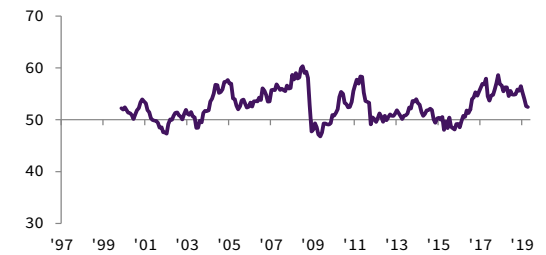
Input Prices Index

sa, >50 = growth since previous month



Prices Charged Index

sa, >50 = growth since previous month



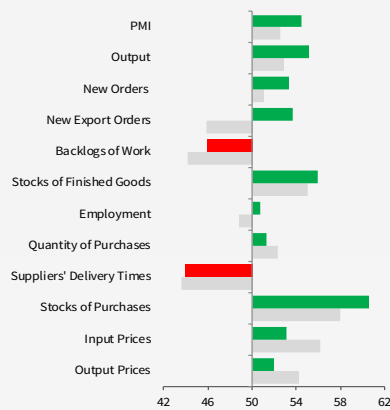
Manufacturing sector

Strong production growth so far in 2019, partly driven by a surge in stockpiling

Manufacturing PMI® data

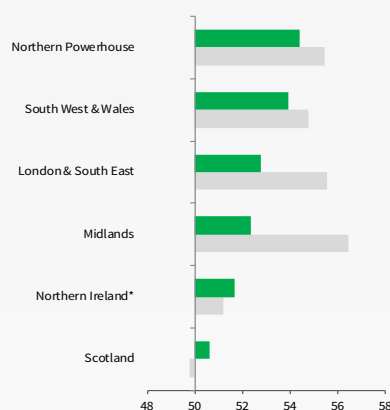
Northern Powerhouse vs. Rest of UK

sa, >50 = growth since previous month, Apr-19, NPH ■ UK ■



UK regional manufacturing PMI ranking

sa, >50 = growth since previous month, Apr-19 ■ (Mar-19 ■)



* Manufacturing Output Index.

Additional Northern Powerhouse Manufacturing PMI charts shown in the Appendix (page 12).

April data reveals that the Northern Powerhouse achieved a faster pace of manufacturing growth than the rest of the UK, with rising export sales and sustained job creation the main bright spots.

The solid trends seen in April follow a somewhat unusual start to the year, with Brexit contingency measures leading to the sharpest rise in stocks of purchases across the region for more than 20 years. A desire to build safety stocks also led to the steepest accumulation of finished goods inventories since the start of the index in 1997.

The headline NatWest Northern Powerhouse Manufacturing Purchasing Managers' Index® (PMI®) – a single figure measure of developments in overall business conditions – posted 54.4 in April, down from March's 13-month high of 55.4 but still well above the neutral 50.0 threshold.

The index signalled a robust improvement in manufacturing business conditions and remained higher than the equivalent figure for the rest of the UK.

Production and inventories

April data also indicated strong output growth across the Northern Powerhouse manufacturing sector. The rate of expansion eased since March as the temporary boost from Brexit contingency plans started to wane. Efforts to mitigate supply chain disruption and accumulate inventories had resulted in the fastest increase in output since December 2017.

Order books

Manufacturers reported a solid rebound in new business volumes in April, with the rate of expansion the fastest so far in 2019. The PMI new orders to inventories

ratio for the region also improved, after reaching its lowest for almost seven years in March. The recovery in sales in April will help to alleviate concerns that high levels of inventories and forward-purchasing by customers will act as a brake on production growth in the coming months.

Export sales were a key driver of the rebound in order books during April. The latest rise in new work from abroad was the joint-strongest since July 2018, despite challenges from softer global trade flows and subdued business conditions in the automotive sector.

Employment

Staffing levels meanwhile rose in April, which marked a back-to-back increase in Northern Powerhouse manufacturing employment for the first time since last summer. Sustained job creation also contrasted with another decline in payroll numbers signalled by manufacturing PMI data for the rest of the UK.

Supplier performance

The latest survey data highlighted that the trend of longer lead-times continued into April. Northern Powerhouse manufacturers mostly noted stretched supply chains and a squeeze on transport capacity. Wait-times for manufacturing inputs have increased in each month since August 2016.

Amid the flurry of Brexit contingency purchasing, there were some positive signals in terms of Northern Powerhouse supply chain resilience. Survey data indicated that demand for materials rose at a stronger pace than the UK as a whole, but manufacturers reported less widespread delays from suppliers than the national average in March.



Richard Carter

BASF, the world's leading chemical company, is a global chemical technology business with its UK HQ based in England's industrial heartland, the North West, where we have a long history.

BASF has 8 manufacturing sites across the UK, from Littlehampton on the south coast to Callanish in the Outer Hebrides. We produce a wide range of products here: polyurethane systems at Alfreton, dispersions and additives at Bradford, omega-3 Fatty acids in Callanish, biopesticides at Littlehampton, Flooring Systems at Redditch, Concrete Admixtures at Swinton and Rodenticides at Widnes. In addition, we recycle automotive catalysts in Cinderford. While not producing agricultural chemicals in the UK, our North West (NW) based AgChem team is a key partner to UK agriculture.

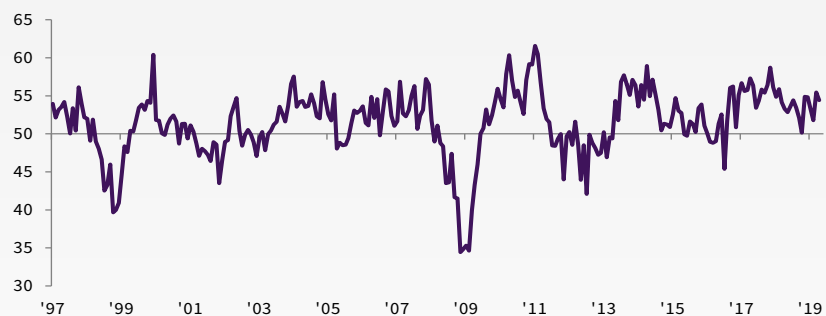
Our broad portfolio is characteristic of the chemical industry which is often called the industry of industries as it supplies leading UK industries such as automotive, aerospace and pharmaceuticals. We are always looking for opportunities to grow our portfolio in the UK.

The outlook for our customer industries, and therefore for us, is currently clouded by unprecedented uncertainty. However, where there are challenges there are also huge opportunities and innovation is key. And the NW is well positioned to benefit from this.

BASF looks to contribute to a world that provides a viable future with enhanced quality of life for everyone. We do this by creating chemistry for our customers and society and by making the best use of available resources: sourcing and producing responsibly, acting as a fair and reliable partner and connecting creative

Northern Powerhouse Manufacturing PMI®

sa, >50 = growth since previous month



minds to find the best solutions for market needs.

BASF is represented on the UK Chemistry Council, the industry partnership with government and the Business Energy and Industrial Strategy department. We continue to highlight the opportunities in the NW, one of the 4 chemical clusters in the UK. These clusters are strategic for the UK.

Via the Industrial Strategy the NW can benefit from this partnership. Manchester will be one of the first Local Enterprise Partnerships (LEPs) to deliver a Local Industrial Strategy (LIS). A key element of this is the focus on Advanced Manufacturing and the world class universities and R&D centres underpinning the region, which we support. Cheshire and Warrington, one of the UK's highest GVA (gross value added) areas due to refining, chemicals and manufacturing will follow in delivering its LIS, working closely with the Liverpool City Region.

Hydrogen and decarbonisation are huge opportunities for the NW due to the existing companies, assets and technologies: key customers for BASF in future. We support the NWBLT in driving to make the NW the leading low carbon hub. However, the

NW must work effectively with other LEPs across the North to fulfil its potential: silo thinking is yesterday, collaboration is the model of today!

The Industrial Strategy also embodies a new era of collaboration between business leaders and the devolved regions. The Metro Mayors in the NW are important partners for business and they should be bold to embrace new technologies to contribute to solving urgent societal issues such as clean air and the circular economy.

At BASF we continue to strengthen our performance in innovation and in operations as the leading chemical producer and plant operator, leveraging digital ways of working across the entire company, and integrating sustainability more deeply into our business decisions.

This report is valuable because it supports our mantra: if you can measure it, you can improve it! Continuous improvement supported with metrics.

Richard Carter is Managing Director of BASF UK / Ireland & Chairman of the North West Business Leadership Team

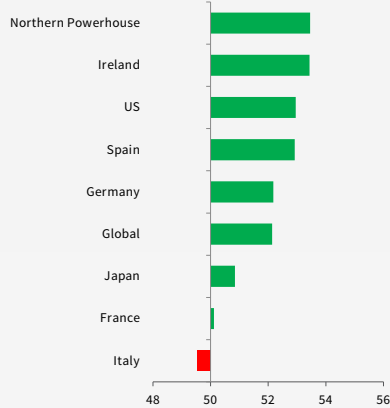
International context

Softest global economic growth since 2016 as trade tensions hold back manufacturers

Global PMI® data

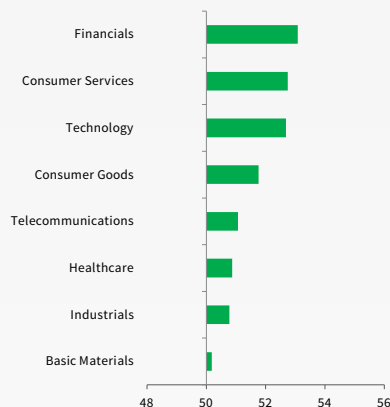
Business activity rankings, April 2019

sa, >50 = growth since previous month



Global sector rankings, April 2019

sa, >50 = growth since previous month



The solid upturn in business activity across the Northern Powerhouse region in April compared favourably with the slower international growth trends indicated by IHS Markit's PMI® surveys.

Latest data signalled the weakest upturn in worldwide economic output for around two-and-a-half years. There were clear signs that weaker global trade volumes have taken root in the wake of US-China tensions and contributed to a general slowdown in manufacturing sector performance.

At 52.1 in April, down from 52.7 in March, the Global Composite PMI compiled by IHS Markit signalled the joint-slowest rate of worldwide economic growth since September 2016. This primarily reflected lacklustre manufacturing conditions and a headwind to business investment from ongoing US-China trade frictions.

Manufacturing-led slowdown

Goods producers in Europe and Asia have experienced a particularly sharp loss of momentum since 2018. Business investment and manufacturing supply chains have been hard hit by global trade tensions, leading to a prolonged slide in world trade volumes.

Automotive sector weakness has added to the soft patch for manufacturers, with new orders in this category dropping to the greatest extent since 2009.

Strong demand for consumer services has been a key highlight for the global

economy so far this year. Tech firms and financial service providers have also outperformed on a sectoral basis.

The contrast between soft manufacturing conditions and strong services growth has been most notable in Germany and China. The UK has bucked this trend as Brexit stockpiling gave manufacturers a temporary boost while services growth softened amid widespread reports of subdued corporate spending.

Service sector resilience

Resilient service sector growth has helped offset some of the weakness among the industrials and basic materials categories, which have borne the brunt of the global trade slowdown in 2019.

Sustained expansion of service sector output has been recorded in both developed and emerging markets so far this year. Stronger labour market conditions and relatively soft input cost inflation has helped to underpin rising consumer demand. Reflecting this, latest Global PMI data signalled the lowest rate of input price inflation for over two-and-a-half years in April, despite challenges from greater wage pressures in a number of major economies.

There are nonetheless some warning signals ahead, as highlighted by a drop in business optimism to its weakest since June 2016. This slide in growth expectations among service providers in April primarily reflected concerns about spillovers from US-China trade frictions, alongside the prospect of rising risk aversion among businesses and consumers.



Lord Jim O'Neill



“
If you consider the same PMI data in the context of the past five years, and particularly the past three, the Northern Powerhouse has begun to outperform London.
”

For the Northern Powerhouse to be a success it must sit at the heart of the UK's international connections and export relationships. In terms of connectivity we can see through Manchester Airport's direct flights to China and £1 billion investment in its terminal the north is placing itself in prime position to attract foreign investment.

Similarly, ABP's investments in Hull and Immingham have seen shipments originally intended for Dover moved to the north. Sirius Minerals' investment in its fertiliser mine on the Yorkshire coast will not only transform the local labour market but will add a significant sum to the UK's export figures.

To build on this success, further work still needs to be done, particularly in the area of connectivity. In order to capitalise fully on Manchester Airport's international connections, it must be much easier to move around the region once arriving here.

Projects such as Northern Powerhouse Rail (NPR) hold the potential to unlock this prize. Not only will this improve the experience for those visiting, it will hugely improve the ability for the people living here to move around more easily and access a greater range and number of employment opportunities. The Northern Powerhouse can then reap the benefits of such economic agglomeration to reach our vision of 850,000 extra jobs and an economy £100bn larger in size by 2050.

The new Northern Powerhouse PMI shows that there may be some evidence of modest progress in addressing the economic imbalance in the UK. To be sure, London has performed better than northern areas over the past decade, but this was before the Northern Powerhouse initiative was launched in 2014. While many economic observers assume that London will be more resilient to the effects of Brexit than the country's manufacturing-heavy regions will be, this ignores initiatives like the Northern Powerhouse.

If you consider the same PMI data in the context of the past five years, and particularly the past three, the Northern Powerhouse has begun to outperform London.

Some of this divergence is due to London itself slipping, most likely owing to its weakening property market and the cooling investment environment brought on by Brexit. Nonetheless, the regions associated with the Northern Powerhouse are showing persistent strength, and the PMI data are further supported by anecdotal evidence and other regional economic statistics.

Lord Jim O'Neill is
Vice-Chair of the Northern
Powerhouse Partnership

UK regional outlook

Businesses across Northern Powerhouse show renewed optimism in April

Business confidence across the Northern Powerhouse recovered in April, following a sharp slide amid a spike in Brexit uncertainty during the first quarter of 2019. Firms in the region are more optimistic towards future output than the national average, although there are indications that political uncertainty continues to cast a shadow over the outlook.

As well as asking companies to report on how key metrics such as output, employment and prices have changed over the past month, the PMI surveys give respondents the opportunity to provide an assessment of growth prospects for their own company over the coming year.

According to April's survey, just over half (51%) of firms across the Northern Powerhouse believe their output will be higher in one year's time, compared to around one-in-seven (14%) expecting a fall. The resulting Future Business Activity Index reading was 68.2. This represented a sharp rebound from a six-year low of 61.7 in March and signalled the highest degree of optimism since last October.

Since data collection on this series started in mid-2012, the index has registered an average of 70.3, reaching a record high of 79.7 in spring 2014.

R&D spending is a cause for optimism...

Confidence levels across the Northern Powerhouse have been above the national average in all but one month (March 2019) over the past two-and-a-half years. In April, only firms in the West Midlands and the South West showed greater optimism.

Investment in new technology is seen by survey respondents as one of their main avenues for growth, in terms of both enhancing capacity and improving productivity. Other firms also highlight the introduction of new products and expanding export opportunities as factors that could lead to higher activity.

...but uncertainty about global trade outlook persists

Survey data suggested that the influence of Brexit uncertainty on confidence reached a peak in March, before easing in April amid the implementation of an extension to the Article 50 deadline. Nonetheless, the difficulty of predicting the path to Brexit and future trade relationships continues to weigh on confidence. Firms across the Northern Powerhouse also identified the fallout from an escalating US-China trade war as a key threat, reflecting concerns it will impact European supply chains and extend the automotive sector slowdown.

Key findings

Majority of Northern Powerhouse firms foresee output rising over next 12 months

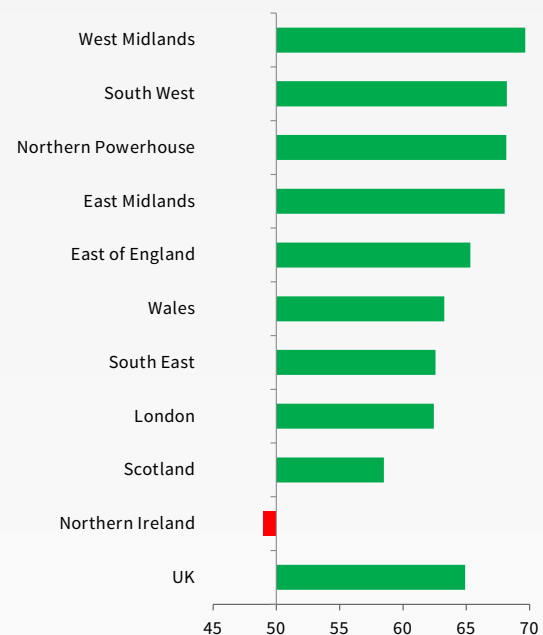
Business optimism exceeds the UK average, but is below its historical trend

New products, exports and investment in new technology cited as main growth opportunities

Business Expectations Index, by UK region

April 2019

sa, >50 = growth over the next 12 months



Emma Degg



“
NWBLT is working
to support
businesses by
encouraging
increased
collaboration
across the region.
”

Membership of the North West Business Leadership Team spans all sectors of this region’s economy, from University Vice-Chancellors to the leaders of advanced manufacturing businesses. Our mission is to harness this collective expertise to make a difference to the economy and communities of the region.

The positive findings of this report reflect the confidence and ambition that our business leaders have in the North as a globally competitive and attractive place to do business.

The fact that businesses in the North remain on a growth footing, with improved order books this Spring, is not just good news for this part of the UK. The country’s exporting ambitions – regardless of Brexit outcomes – rely on securing continued growth ‘up North’. It cannot be otherwise. The North West alone has the greatest manufacturing output of all the UK regions, producing 9% of total exports. We remain a cornerstone of the country’s industrial production. That export sales are a key driver in the reported rebound in orders across the North underlines this, as does the appetite expressed by businesses to introduce new products and seek out further export opportunities.

The recent boost in economic activity is, of course, partly due to stockpiling from business contingency planning, and it would be imprudent to gloss over this. If current growth is to continue, renewed efforts must be made across all sectors to invest in the things that will secure the continued competitiveness

of businesses in an uncertain global market place. For us perhaps the most positive message in the report is that respondents regard investment in new technology as a key focus for the future.

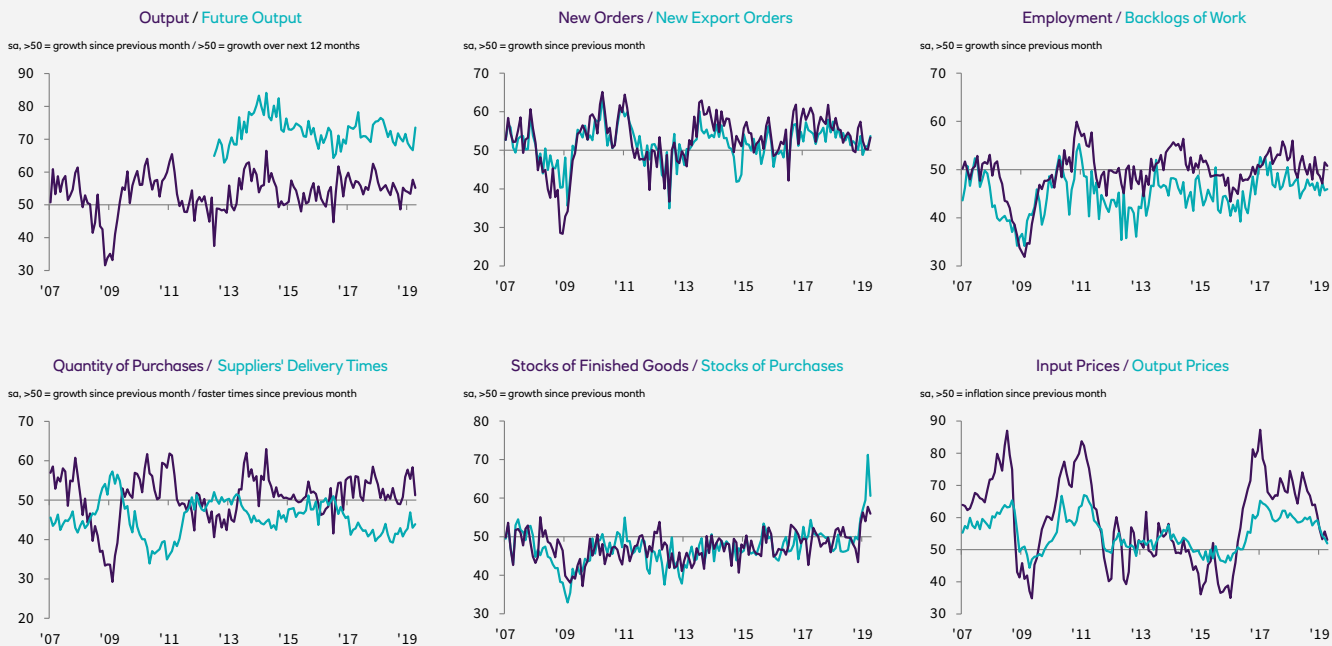
To take just one example, the ‘Made Smarter’ North West Digital Adoption Pilot is working to contribute to this drive. This national pilot project seeks to encourage manufacturing supply chains to digitise through the provision of specialist advice services and finance, delivering support to 3,000 SMEs over the next two years. It perfectly illustrates the type of work we must foster to help to secure a healthy manufacturing sector beyond Brexit that can compete globally and secure jobs.

Appetite for future investment is crucial – and has been a point of weakness in the past. While the North West is one of the strongest regions of the UK for business expenditure on research and development overall, this has not been the case across all sectors. NWBLT is working to support businesses that have the ambition and confidence to invest by encouraging increased collaboration across the region. This will help to raise investor awareness of the fantastic opportunities presented by new home grown innovations that range from hydrogen and energy through to big data and cyber security.

To conclude, this report justifies a positive current outlook and signals the North’s confidence in being able to deliver competitive advantage for business in the future.

**Emma Degg is Chief Executive
of the North West Business
Leadership Team**

Appendix: Northern Powerhouse Manufacturing PMI



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Methodology

The NatWest Northern Powerhouse PMI® is compiled by IHS Markit from responses to questionnaires sent to companies across the North East, North West and Yorkshire & Humber that participate in IHS Markit's UK manufacturing and services PMI surveys, with results weighted to reflect regional contribution to UK gross value added.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The Northern Powerhouse Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'Northern Powerhouse PMI'. The Northern Powerhouse Manufacturing PMI is comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique

monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge in areas such as manufacturing and technology, as well as access to specialist entrepreneurial support.

NatWest has been running MoneySense, an impartial financial education programme for 5–18 year-olds, for more than 21 years. By the end of 2018, NatWest will help another 1 million young people to understand and take control of their finances.

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